

Essential Due Diligence Procedures You Must Perform Before You Purchase

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Importance of Reviewing Lease Charges as Part of Due Diligence Procedures

- Potential liability for overcharges by previous landlord
- Overpaying for property based on incorrect & potential income assumptions
- Is potential income higher as a result of previous landlord undercharges?

Independent Forensic Lease Review to Determine Correct Rent & Additional Rent Charges

- Requirement of a comprehensive lease interpretation
- Many GRAY areas contained in escalation clauses
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- Thorough review by an independent third party to eliminate conflicts of interest of the actual charges billed
- Most Importantly, the analysis must be performed by someone possessing sufficient practical escalation accounting expertise within the commercial real estate industry

Base Rent Step-Ups

- Erroneous rent commencement dates
- Undocumented rent commencement dates

Real Estate Taxes

- Certiorari and the effect on escalation calculations
- Bid Tax and base year effects

CPI Escalations

- Indexes and the frequency of the calculation
- Electric inclusion

Operating Expense Escalation

- Escalation expense overcharges amount to millions of dollars
- Repairs versus Capital Improvements
- Inconsistent Methodology
- Amortization of equipment results in cost reductions based on useful life
- Window of time to object/fraud

Porter Wage Escalation

- Fringe Benefits
- Billing Multiplier

The Pros & Cons of Inaccurate Tenant Charges

- Protection against liability in the property sales agreement
- Establish who is entitled to under billing of revenue for prior period of ownership
- Current and future Increases /Decreases hit the bottom line